IMAGING TECHNOLOGIES CORP/CA
Form 8-K
January 25, 2002

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 8-K
CURRENT REPORT

Pursuant to Section 13 or 15(d) of the
Securities Exchange Act of 1934

Date of report
(Date of earliest event reported)
January 25, 2002

IMAGING TECHNOLOGIES CORPORATION
(Exact Name of Registrant as Specified in its Charter)

DELAWARE	0-12641	33-0021693
(State of Incorporation)	(Commission File Number)	(I.R.S. Employer Identification No.)

15175 Innovation Drive
San Diego, California 92128
(Address of Principal Executive Offices)

(858) 613-1300
(Registrant's telephone number, including area code):

Not Applicable
(Former Name or Former Address, if Changed Since Last Report)

1

ITEM 2. ACQUISITION OF ASSETS

(a) On November 12, 2001, Imaging Technologies Corporation ("ITEC" or the "Company") acquired all of the outstanding shares of SourceOne, Inc. ("SourceOne") from Neotactix, Inc. for $750,000. ITEC paid $250,000 in cash at Closing. $200,000 of these funds were provided by outside investors in the form of a promissory note convertible into shares of ITEC common stock, the number of which will be determined by a formula applied to the market price of the shares at the time that the promissory note is converted. The balance is payable in cash or stock on a quarterly payment schedule beginning in April 2002. The Company has agreed to register all shares subsequent to filing of audited financial statements related to the acquisition on Form 8-K within 60 days of this filing.

The purchase price was determined through analysis of SourceOne's recent, unaudited financial performance. SourceOne, through September 30, 2001, had losses of approximately $220 thousand on 6-month revenues of approximately $25 million. The total purchase price was arrived at through negotiations. The assets of SourceOne consist of cash, accounts receivable, and pre-paid insurance premiums.

SourceOne is a professional employer organization ("PEO") that provides comprehensive personnel management services, including benefits and payroll administration, health and workers' compensation insurance programs, personnel records management, and employer liability management.

On November 13, 2001, the registrant issued a press release, a copy of which is attached as Exhibit 99.1 to this Form 8-K and incorporated herein by reference.

ITEM 7. FINANCIAL STATEMENTS AND EXHIBITS.

(a) Audited Financial Statements of SourceOne Group, LLC.

INDEX

INDEPENDENT AUDITORS' REPORT

TO THE BOARD OF DIRECTORS OF
SOURCE ONE GROUP, LLC

We have audited the accompanying consolidated balance sheet of SOURCE ONE GROUP, LLC and Subsidiary as of October 31, 2001, and the related consolidated statements of operations, members' deficit and cash flows for the initial period from February 1, 2001 (inception) to October 31, 2001. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of SOURCE ONE GROUP, LLC and Subsidiary as of October 31, 2001, and the consolidated results of its operations and its cash flows for the initial period from February 1, 2001 (inception) to October 31, 2001 in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming the Company will continue as a going concern. As discusses in Note 9 to the financial statements, the Company has suffered recurring losses from operations and has a deficit in working capital. This raises substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 9. These financial statement do not include any adjustments that might result from the outcome of this uncertainty.

MERDINGER, FRUCHTER, ROSEN & CORSO, P.C.
Certified Public Accountants

New York, New York
January 23, 2002

3

SOURCE ONE GROUP, LLC
(A Development Stage Company)
CONSOLIDATED BALANCE SHEET
OCTOBER 31, 2001

ASSETS	
Current assets	
Cash and cash equivalents	$ 215,114
Accounts receivable	
Trade	47,869
Unbilled	1,114,120
Prepaid expenses	9,792
Total current assets	1,386,895
Property and equipment, net	20,730
Other assets	196,577
Total assets	$ 1,604,202
LIABILITIES AND MEMBERS' DEFICIT	
Current liabilities	
Accounts payable	$ 98,952
Payroll taxes and other payroll deductions payable	347,459
Accrued worksite employee payroll expense	1,031,378
Notes payable - related parties	200,000
Other accrued liabilities	212,845

Total current liabilities	1,890,634
Members' deficit	(286,432)
TOTAL LIABILITIES AND MEMBERS'DEFICIT	$ 1,604,202

The accompanying notes are an integral part of the financial statements.

SOURCE ONE GROUP, LLC
(A Development Stage Company)
CONSOLIDATED STATEMENT OF OPERATIONS
FEBRUARY 1, 2001 (INCEPTION) TO OCTOBER 31, 2001

Revenue	$ 29,973,706
Direct costs	
Salaries and wages of worksite employees	25,818,651
Benefits and payroll taxes	3,566,753
	29,385,404
Gross profit	588,302
Operating expenses	
Salaries, wage and payroll taxes	479,550
General and administrative expenses	306,413
Commissions	83,004
Depreciation	5,005
	873,972
Loss from operations	(285,670)
Interest expense, net	9,704
Net loss	$ (295,374)

The accompanying notes are an integral part of the financial statements.

SOURCE ONE GROUP, LLC
(A Development Stage Company)
CONSOLIDATED STATEMENT OF MEMBERS' DEFICIT
FEBRUARY 1, 2001 (INCEPTION) TO OCTOBER 31, 2001

Balance, February 1, 2001	$ -
Member contributions	8,942
Net loss	(295,374)
Balance, October 31, 2001	$ (286,432)

The accompanying notes are an integral part of the financial statements.

6

SOURCE ONE GROUP, LLC
(A Development Stage Company)
CONSOLIDATED STATEMENT OF CASH FLOWS
FEBRUARY 1, 2001 (INCEPTION) TO OCTOBER 31, 2001

Cash flows from operating activities:	
Net loss	$ (295,374)
Adjustment to reconcile net loss to net cash provided by operating activities:	
Depreciation	5,005
Bad debt expense	53,069
Non-cash interest expense	8,942
Changes in operating costs and liabilities:	
Accounts receivable	(1,215,057)
Prepaid expenses	(9,792)
Other assets	(196,577)
Accounts payable	98,952
Payroll taxes and other payroll deductions payable	347,459
Accrued worksite employee payroll expense	1,031,377
Other accrued liabilities	212,845
Net cash provided by operating activities	40,849
Cash flows from investing activities:	
Purchase of property and equipment	(25,735)
Net cash used in investing activities	(25,735)
Cash flows from financing activities:	
Note payable - related party	200,000
Net cash provided by financing activities	200,000
Net increase in cash and cash equivalents	215,114

Cash and cash equivalents - February 1, 2001		-
Cash and cash equivalents - October 31, 2001	$	215,114
Supplemental cash flow information:		
Cash paid for:		
Interest	$	762
Income taxes	$	-

The accompanying notes are an integral part of the financial statements.

7

SOURCE ONE GROUP, LLC
(A Development Stage Company)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
OCTOBER 31, 2001

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Line of Business

Source One Group, LLC, (the "Company), was formed under the laws of the State of Virginia on February 1, 2001. The Company is a professional employer organization (PEO) that provides a comprehensive personnel management system encompasssing a broad range of services including benefits and payroll administration, medical and workers' compensation insurance programs, personnel records management and employer liability management.

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary. Intercompany accounts and transactions have been eliminated in consolidation.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

The Company considers all highly liquid investments purchased with original maturities of three months or less to be cash equivalents.

Concentration of Credit Risk

The Company places its cash in what it believes to be credit-worthy financial institutions. However, cash balances may exceed FDIC and SPIC insured levels at various times during the year.

Financial instruments that could potentially subject the Company to concentration of credit risk include accounts receivable. The Company generally requires clients to pay invoices for service fees no later than one day prior to the applicable payroll date. As such, the Company generally does not require collateral.

Property and Equipment

Property and equipment is recorded at cost. Depreciation is provided for in amounts sufficient to relate the cost of depreciable assets to operations over their estimated service lives on a straight-line basis over three years.

Maintenance and repairs are expensed as incurred; additions and betterments are capitalized.

Fair Value of Financial Instruments

The carrying value of cash and cash equivalents, accounts receivable, notes receivable, accounts payable and accrued expenses and income taxes payable approximates fair value due to the relatively short maturity of these instruments.

Long-Lived Assets

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recovery of assets to be held and used is measured by a comparison of the carrying amount of the assets to the future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less the cost to sell.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

PEO Service Fees and Worksite Employee Payroll Costs

The Company's revenue consists of service fees paid by its clients under its Client Service Agreements. In consideration for payment of such service fees, the Company agrees to pay the following direct costs associated with the worksite employees: (i) salaries and wages; (ii) employment-related taxes; (iii) employee benefit plan premiums; and (iv) workers' compensation insurance premiums. The Company accounts for PEO service fees and the related direct payroll costs using the accrual method. Under the accrual method, PEO service fees relating to worksite employees with earned but unpaid wages at the end of each period are recognized as unbilled revenues and the related direct payroll costs for such wages are accrued as a liability during the period in which wages are earned by the worksite employee. Subsequent to the end of each period, such wages are paid and the related PEO service fees are billed. Unbilled receivables at October 31, 2001, are net of prepayments received of $135,384.

NOTE 2 - PROPERTY AND EQUIPMENT

Property and equipment is summarized as follows:

Furniture and fixtures	$	10,000
Computers and other equipment		15,735
		25,735
Accumulated depreciation		5,005
Property and equipment, net	$	20,730

NOTE 3 - OTHER ASSETS

Other assets consist primarily of a deposit for workers compensation insurance premiums of $184,802.

NOTE 4 - NOTES PAYABLE

As of October 31, 2001, notes payable consists of a demand note payable of $200,000 to a principal member of the LLC, unsecured and bearing no interest. Interest is imputed at 8%. As of October 31, 2001, an expense of $8,942 was accrued and recorded as additional members' contribution.

NOTE 5 - INCOME TAXES

The Company is a Limited Liability Company. As such, income or losses are taxed directly to the individual members. Since the Company has incurred losses since inception, there would be no income tax expense, on a proforma basis, if the Company had been a corporation.

NOTE 6 - EMPLOYEE SAVINGS PLAN

The Company maintains a 401(K) employee savings plan. Eligible employees may contribute up to 15% of earnings, up to the maximum permitted by law ($10,500 for 2001). Employee contributions are fully vested immediately. The Company does not match any portion of employee contributions.

NOTE 7 - COMMITMENTS AND CONTINGENCIES

The Company occupies its office facilities pursuant to a sublease expiring June 30, 2002. Rental expense included in the financial statements is $40,896. The future minimum rental payments is $32,000 for the eight months ended June 30, 2002.

Pursuant to its workers compensation insurance policy, the Company is liable for the first $150,000 payable under each claim. The insurance carrier requires the Company to maintain a loss reserve deposit of $500,000. At October 31, 2001, the Company has a credit of $266,328 in the reserve account and has accrued $382,625 in losses. The net accrual of $116,297 has been included in Other Accrued

Liabilities.

NOTE 8 - SUBSEQUENT EVENTS

On November 11, 2001, the Company changed its name and status from SourceOne Group, LLC to SourceOne, Inc.

On November 12, 2001, Imaging Technologies Corporation (ITEC), a publicly traded company, acquired all of the outstanding shares of SourceOne, Inc. for $750,000.

NOTE 9 - GOING CONCERN

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. The Company has incurred operating losses and has a working capital deficit at October 31, 2001. These factors raise substantial doubt about the Company's ability to continue as a going concern. Subsequent to October 31. 2001, the Company was acquired by a public entity, as described in Note 8.

ITEM 7. FINANCIAL STATEMENTS AND EXHIBITS (continued)

(b) Pro forma financial information.

Following are pro forma financial statements reflecting the acquisition of SourceOne by the Company. The information is derived from the audited financial statements of the Company for the year ended June 30, 2001, unaudited financial statements for the quarter ended September 30, 2001; and the unaudited financial statements of SourceOne from inception (February 2001) through September 30, 2001.

This pro forma information was also provided in the Company's Form 10-Q/A report for the period ended September 30, 2001, filed on December 5, 2001.

PRO FORMA CONSOLIDATED BALANCE SHEETS

in thousands	Sept. 30, 2001			
	ITEC	SourceOne	Pro forma	P
	Unaudited	Unaudited (2)	Adjustments	I
ASSETS				
Current assets				

Cash	36	431	-
Accounts receivable	574	234	-
Inventories	140	-	-
Prepaid expenses and other	273	195	-
Total current assets	1,023	860	-
Goodwill, net	569	-	531
Deposits and allowances	-	83	-
Property and equipment, net	152	22	-
Total assets	1,744	965	531
LIABILITIES AND SHAREHOLDERS' NET CAPITAL DEFICIENCY			
Current liabilities			
Borrowings under bank notes payable	4,018	-	-
Short term debt	4,606	-	-
Accounts payable	5,498	30	-
Accrued expenses	4,914	956	-
Total current liabilities	19,036	986	-
Notes payable	-	-	500
Total liabilities	19,036	986	500
Stockholders' net capital deficiency			
Series A preferred stock	420	-	-
Common stock	865	-	10
Common stock warrants	541	-	-
Paid-in capital	69,479	-	-
Shareholder loans	(105)	200	(200)
Accumulated deficit	(88,492)	(221)	221
Total shareholders' net capital deficiency	(17,292)	(21)	31
	1,744	965	531

(1) Adjusted to reflect the consolidated balance sheets of ITEC and SourceOne
(2) From SourceOne Group's inception in February 2001

PRO FORMA CONSOLIDATED STATEMENTS OF OPERATIONS

in thousands, except per share data	Three months ended September 30, 2001		Pro forma	Pro for
	ITEC	SourceOne	Adjustments	ITEC (

	Unaudited	Unaudited(2)		
Revenues				
Sales of products	1,057	-	-	1,0
Licenses and royalties	21	-	-	
PEO services	-	13,412	-	13,4
	1,078	13,412	-	14,4
Costs and expenses				
Cost of products sold	598	-	-	5
Cost of PEO services	-	13,155	-	13,1
Selling, general and administrative	1,413	345	-	1,7
Research and development	72	-	-	
	2,083	13,500	-	15,5
Loss from operations	(1,005)	(88)	-	(1,0
Other income (expense)				
Interest and finance costs	(177)	-	-	(1
Other	-	-	-	
	(177)	-	-	(1
Loss before income taxes	(1,182)	(88)	-	(1,2
Income tax benefit (expense)	-	-	-	
Net loss	(1,182)	(88)	-	(1,2
Preferred stock dividends	-	-	-	
Net loss	(1,182)	(88)	-	(1,2
Earnings (loss) per common share				
Basic	(0.01)	(1.76)	-	(0.
Diluted	(0.01)	(1.76)	-	(0.
Weighted average of common shares	170,984	50	10,000	180,9
Weighted average of common shares - diluted	170,984	50	10,000	180,9

(1) Adjusted to reflect the consolidated statements of operations of ITEC and SourceOne
(2) From SourceOne Group's inception in February 2001

PRO FORMA CONSOLIDATED STATEMENTS OF OPERATIONS, CONTINUED

in thousands, except per share data	Year ended	Six months ended

	June 30, 2001	Sept. 30,2001	Pro forma	P
	ITEC	SourceOne	Adjustments	ITEC (
	Audited	Unaudited (2)		
Revenues				
Sales of products	2,897	-	-	2,
Licenses and royalties	555	-	-	
PEO services	-	25,083	-	25,
	3,452	25,083	-	28,
Costs and expenses				
Cost of products sold	2,742	-	-	2,
Cost of PEO services	-	24,605	-	24,
Selling, general and administrative	8,720	694	-	9,
Research and development	250	-	-	
	11,712	25,299	-	37,
Loss from operations	(8,260)	(216)	-	(8,
Other income (expense)				
Interest and finance costs	(1,628)	(1)	-	(1,
Other	-	4	-	
	(1,628)	3	-	(1,
Loss before income taxes	(9,888)	(213)	-	(10,
Income tax benefit (expense)	-	-	-	
Net loss	(9,888)	(213)	-	(10,
Preferred stock dividends	(21)	-	-	
Net loss	(9,909)	(213)	-	(10,
Earnings (loss) per common share				
Basic	(0.08)	(4.26)	-	(0
Diluted	(0.08)	(4.26)	-	(0
Weighted average of common shares	131,488	50	10,000	141,
Weighted average of common shares diluted	131,488	50	10,000	141,

(1) Adjusted to reflect the consolidated statements of operations of ITEC and SourceOne
(2) From SourceOne Group's inception in February 2001

EXHIBITS

Exhibit Number	Description
99.1**	Press release dated November 13, 2001 issued by the registrant.
99.2*	Acquisition Assignment Agreement, dated November 12, 2001, between the Company and Neotactix, Inc. Incorporated by reference to Exhibit 10(b) of Form 10-Q, dated November 13, 2001.
99.3*	Acquisition Agreement, dated November 12, 2001, among Neotactix, Inc., SourceOne Group, Inc., and certain stockholders of SourceOne Group, Inc. Incorporated by reference to Exhibit 10(c) of Form 10-Q, dated November 13, 2001.

* Filed herewith.
** Filed as part of the signature page of the original filing of this Registration Statement.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

Date: January 25, 2002

IMAGING TECHNOLOGIES CORPORATION

By: /S/ Brian Bonar

Name: Brian Bonar
Title: Chairman, President, and Chief Executive Officer